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Are Independent Commissioners Able to Mitigate Higher Audit Fees in Politically Connected Firms? Evidence from Indonesia

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This study aims to examine the relationship of political connection and independent commissioners to audit fees charged by the auditor. Using both univariate and multivariate analysis on 961 firm-year observations from Indonesian listed, we find that political connection (independent commissioners) has positive (negative) relationship to audit fees. We also find that independent commissioners are dominating the political connection in context of relationship to audit fees. Furthermore, we document that political connection relationship to audit fees is mainly derived from a board of directors, CEO, and affiliation from certain organisations, that are also weakened by the presence of an independent commissioner. Our study contributes to political connection literature in developing countries, specifically in audit fees. We also provide practical implication for management to consider the independent commissioner as one to minimise the demerits of political connection.

Key words: *Audit fees, Political connection, Independent commissioner.*

Background

Political connection in business has shown considerable interest from scholars. Prior studies have found that these firms earned several benefits such as favourable audit opinion (He et al., 2017), more accessible access to the new market (Sojli & Tham, 2017; Zhu & Chung, 2014), buffer from threats to their survival (Zheng el al., 2015), and higher firm performance (Brockman et al, 2013; Lee et al., 2014). Although it provides certain benefits, the political connection also has demerits. Bliss et al. (2011) and Gul (2006) documented that political connection influences the audit effort. For example, as firms can secure their capital financing by utilising their political connection, they have less of a need to provide a high quality of accounting information (Harymawan & Nowland, 2016), which suggests that the auditor must put more effort into improving it's quality.

Prior studies indicate that board connection benefits are increasing substantially in developing countries (Faccio, 2006, 2010; Harymawan, 2013; Nasih et al., 2019). As law enforcement that regulates a firm's connection is weak and lacks sufficient monitoring, the firm will likely be hiring a board that has a political connection to gain it's potential benefits. Also, Kim & Zhang (2013) show that political connection is currently legal, although there is significant controversy surrounding the selective release of private political information to various constituents. There are mounting studies conducted in the Malaysian context (Gul, 2006; Tee, 2018; Tee et al., 2017; Wahab et al., 2011) as one of the developing countries, but only limited research in taking the Indonesian context as the setting, especially in connection with audit effort (Ariningrum & Diyanty, 2017).

We specifically investigate the relationship of political connection presence in Indonesia on the audit effort that reflected on audit fees. It hypothesised that the firm has a substantial additional risk for it's political connectedness. Thus an auditor will likely put a more considerable amount of audit procedures to provide a high-quality audit result, resulting in more audit fees needed to cover these activities. Based on prior literature, we predict that auditors perceive a greater risk inherent in politically connected firms, leading to higher audit fees charged. Further, we examine the effectiveness of independent commissaries' presence to mitigate a politically connected firm with inherent risk, as independent commissaries have to be representative of owners that are supervising and monitoring the firm's operations. We predict that independent commissaries' board presence can weaken the political relationship connection toward audit fees.

To examine this issue, we use a sample of Indonesian listed firms as politically connected firms in Indonesia that strongly depend on benefits from their connections (Fisman, 2001). In our analysis, we use a sample of 961 firm-year observations from the Indonesia Stock Exchange (IDX) from 2014 to 2018. We first employed some univariate tests to describe our observation and to test our hypotheses. We documented that in the correlation matrix that politically connected firms have significantly higher audit fees charged. Then we compare the mean between a group of politically connected firms and non-politically connected firms. The result also shows that politically connected firms had significantly audit fees charged compared to non-politically connected firms.

We also employed a multivariate test to test our hypotheses by ordinary least square further. We documented that firms with political connections and the presence of independent commissioners had a positive and significant relationship to audit fees. Furthermore, we also documented that the independent commissioner significantly weakens the relationship, which confirms our third hypothesis. In an additional analysis, we found that the political connection that seated in the board of directors, notably as CEO, has a positive and significant relationship to audit fees. Also, the political connection's affiliation to a particular organisation has a profound relationship compared to other affiliations. Finally, regardless of the type of political connection, we found that the independent commissioner weakens all these relationships to audit fees.

This study adds new empirical evidence to the literature on the political business connection in developing countries. Based on prior studies that document politically connected firms have borne higher risk, we further examine whether independent commissioners can affect that relationship and found that the risk can be minimised as the presence of independent commissioners becomes stronger. Thus, our result informs the business owner that in order to minimise the demerits of political connection, one of it's ways is ensuring there is sufficient supervising and monitoring from the independent commissioner. This study also can indicate that the independent commissioner's role in Indonesia has been operationalised effectively in terms of reducing the risk perceived by auditors.

The rest of this paper is structured as follows: Section 2 provides detailed institutional setting and hypothesis development; Section 3 describes the research method, including the sample and variables; Section 4 specifies the empirical model's results and its discussion; Section 5 summarises the paper and presents concluding remarks.

Literature Review

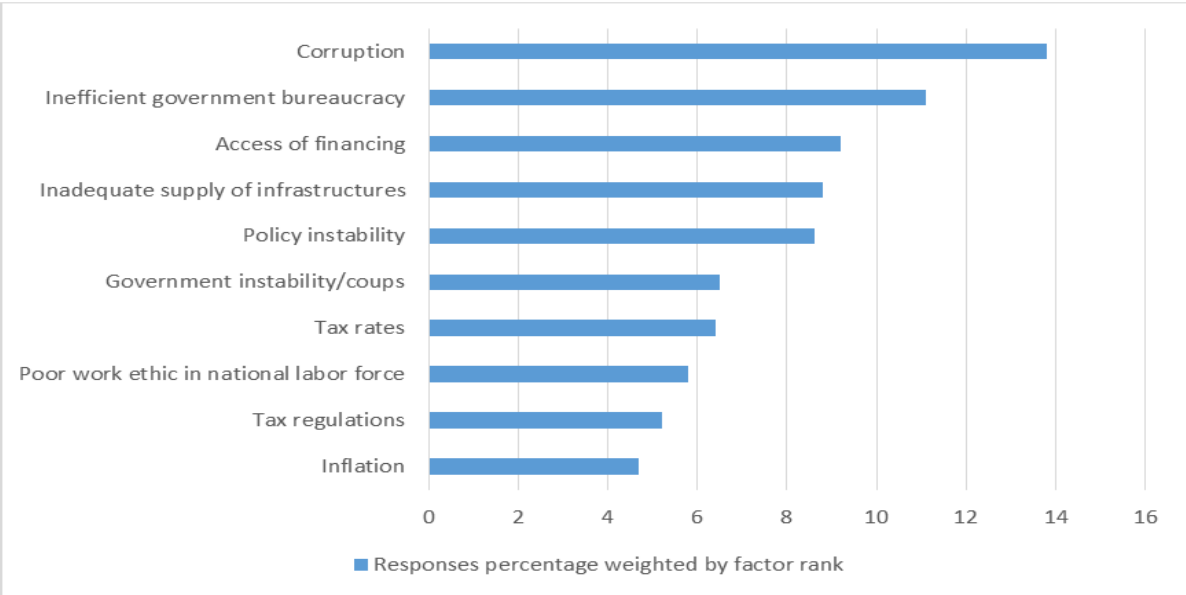
Political Connection in Indonesia

Mounting studies indicate that Indonesia is one of the countries that has a long history of business, and politics cannot be separated. Since the end of the 1970s, Indonesia has been signalling the beginning of an era where political connections in business became substantially increased, with Suharto's cronies at the centre. (Harymawan et al., 2019). The survival of these politically connected firms mainly depends on the current regime stability. In other words, as long as their connections are maintaining their power, most likely, these politically connected firms did not need to worry about their sustainability.

After the fall of Suharto, a shred of hope has appeared for the non-politically connected firm. More than half politically connected firms were wiped out as they could not bare its sustainability after the crisis. Unfortunately, Indonesian business has not entirely freed itself from this connection, as Suharto's old, well established connected firms tended to successfully reconsolidate their business and begin a new connection with current politicians and government officials after the Suharto administration (Winters, 2013).

The current condition of Indonesia's government and its connection to business also cannot be said to be a promising situation. Based on the Global Competitiveness Report 2019 (World Economic Forum, 2019), Indonesia has positioned 51th from 141 countries worldwide for the institution's pillar. It implies that even Indonesia does not have the worst political condition, but is undoubtedly not the best one. Specifically, the Indonesia incidence of corruption index still positioned 77th worldwide, which means this is in line with prior studies (Faccio, 2006, 2010; Harymawan et al., 2019) who that state political connection will achieve it's maximum benefits in a country that has a high level of corruption. Another point, Executive Opinion Survey 2017 (World Economic Forum, 2017) results among ten most problematic factors for doing business in Indonesia, corruption was first positioned, and the rest is dominated by government-related factors. Figure 1 shows the survey results.

Figure 1. Ten Most Problematic Factors Doing Business in Indonesia



Indonesia's political party funding system also became one of considering political-business relationships. A political party in Indonesia funding is from three sources which are : internal (member contributions), state-grant, and external (Mietzner, 2015). Approximately a national level of the political party needs funds of approximately 3.5 million USD annually, while both member donations and state donations each are only 43 thousand USD (Barid et al., 2018). Thus politics is highly involved in the business, as its central source funds come from the private sector. On the other hand, a business can have provided easiness related to specific regulations as it's token of gratitude.

Overall, the political condition of Indonesia is not yet dependable, specifically in terms of separating business and politics. Government and policymakers' involvement in a business is visible, and these practices have become common in Indonesia. To conclude, the situation makes Indonesia become an ideal setting for political connection studies as there are a significant amount in Indonesia.

Hypothesis Development

The audit process is closely related to risk that is borne within the client. As the client's risk rises, typically, the risk that auditors have to deal with also increases. If the firm's risk (either or both of inherent risk and control risk) is high, to maintain a low audit risk, based on audit risk presumption, the only method is one with a low detection risk. This relationship is resulting in more effort in conducting the audit process, including a detail level of the audit program, the amount of audit sample, audit tenure, and many more. Facing this situation, an auditor will tend to charge higher audit fees to the client, as audit fees are regarded as a representation of audit effort by auditors (Cho et al., 2017). High audit fees are required to compensate for the "extra" effort.

The general idea of having a political connection in business resulting in higher audit fees charged is quite common in prior studies (Ariningrum & Diyanty, 2017; Gul, 2006; Norziaton et al., 2015; Tee, 2018; Tee et al., 2017; Wahab et al., 2011). The basic premise lies in politically connected firms have a higher inherent risk compared to non-connected firms. Facing a higher risk client, auditors are expected to raise their assessment of inherent risk in both phase I (plan and design an audit approach of the audit process) and phase III (perform analytical procedures and tests of details of balances), and expend more effort and hence charge higher fees (Gul, 2006). According to Wahab et al. (2011), politically connected firms tend to have higher possibilities of financial business failure, which become a consideration in preliminary assessment by the auditor related to determining the client's risk. Also, Harymawan & Nowland (2016) found that politically connected firms have lower financial reporting quality. The result of this study indicates that auditors must put more effort into political connection to achieve the minimum requirement of financial reporting quality. Based on these arguments, we hypothesised that:

H1: Politically connected firms tend to have higher audit fees charged by auditor.

Continuing the basic idea that audit fees are determined based on the client's risk, the monitoring function of the client undoubtedly plays an essential role. A good corporate governance mechanism through a monitoring function is compulsory worldwide to ensure the shareholder's assuredness. One of the implementations of the monitoring function within a firm is the board of commissioners. As the supervisory board, the board of commissioners has the responsibility to monitor the board of directors' performance in the context of conducting good corporate governance (Setiawan et al., 2019). Ideally, as the monitoring function becomes more

efficient, which is represented by commissioner presence, the risk borne by the firm will be minimised, thus it results in lower audit fees.
As the primary role of the board of commissioners is to monitor, the independence trait is one of the compulsory characteristics to ensure their quality. Independence is seen as an essential attribute that could enhance monitoring function ability (Larasati et al., 2019). This phenomenon makes an independent commissioner position to become more common in business, as it is one of the methods to ensure the board maintains "independence in appearance." The independent board is better than the inside director in the context of the monitoring mechanism (DeFond & Francis, 2005), as they not constrained by any conflict of interest with management and are able to question management as necessary (Carcello & Neal, 2003). In a relationship with audit theory, Mautz & Sharaf (1961, p. 246) assert that the significance of independence is so well-founded ''that little justification is needed to establish this concept as one of the cornerstones in any theory of auditing.''. This statement implies that higher independence of the client's monitoring function will make the auditor make less effort, as an auditor can rely on the client's corporate governance mechanism, resulting in lower audit fees. Based on these explanations, we hypothesised that:

H2: The presence of an independent commissioner lowers the audit fees charged.

In Indonesia's setting, the political connection and independent commissioner in business are common. Even according to local regulations, the independent commissioner board is not compulsory. Indonesian listed firms tend to have an independent commissioner board to maintain the firm's legitimacy in public perception. As for the political connection, the benefits offered by obtaining this connection in Indonesia made firms to race each other to gain and maintain a political connection.

These two board characteristics have a distinct relationship toward the firm's risk, which results in audit fees being charged. Politically connected firms have a higher risk, and the presence of independent commissioners will tend to lower the firm's risk. Thus, these two board characteristics weaken each other's effect in the context of audit fees charged. Based on these explanations, we hypothesised that:

H3: The presence of an independent commissioner weakens politically connected firm relationship to audit fees charged.

Research Methodology

This study uses Indonesian listed firms from 2014 to 2018 as a research sample. There are 3.055 firm-year observations as our initial sample. Then we exclude 1.836 firm-year observations that did not disclose their audit fees, as the audit fees amount disclosure is not compulsory in Indonesia. After that, we exclude samples that do not provide sufficient data required for the variable used in this research, resulting in our final sample being 961 firm-year observation. The detailed sample selection criteria process is provided in table 1.

Table 1: Sample Selection Criteria

Selection Criteria	Sample amount				
	2014	2015	2016	2017	2018
Initial sample	576	576	576	664	663
Did not disclose audit fees	(354)	(338)	(299)	(398)	(427)
Missing data	(35)	(35)	(40)	(121)	(47)
Final observation (each year)	187	203	237	145	189
Final observation (total)					961

To test our hypothesis, we use ordinary least square regression with cluster approach (Petersen, 2009). We develop two regression models in which the first one is for the first and second hypotheses, and the second model is for the third model. For each variable we used, the variable operationalisation is provided in table 2. As for the control variable, we follow (Choi et al., 2010) audit fees model that are applicable in Indonesia. The regression model that we employed as follows:

$LNAFEE = \alpha + \beta 1PCONit + \beta 2DIBOCit + \beta 3DIBODit + \beta 4EMPit + \beta 5BIG4it + \beta 6ROAit + \beta 7FSIZEit + \beta 8LOSSit + \beta 9LEVit + \beta 11INDUSTRY + \beta 12YEAR + \varepsilon$……........……………..................... (1)

$LNAFEE = \alpha + \beta 1PCONit + \beta 2DIBOCit + \beta 3PCON{*}DIBOCit + \beta 4DIBODit + \beta 5EMPit + \beta 6BIG4it + \beta 7ROAit + \beta 8FSIZEit + \beta 9LOSSit + \beta 10LEVit + \beta 11INDUSTRY + \beta 12YEAR + \varepsilon$………………. (2)

Table 2: Variable Operationalisation

Variable	Definition	Data source
Dependent variable		
LNAFEE	Natural logarithm of audit fees	Annual report
Test variable		
PCON	1 for a firm with one or more commissioners and/or directors who held political positions current/before sitting on the board and otherwise 0	Annual report
DIBOC	1 for a firm that it's independent commissioners proportion is more than the total sample median and otherwise 0. Independent commissioners' proportion is calculated by the total independent commissioners deflated by the total board of commissioners.	Annual report
Control variable		
DIBOD	1 for a firm that it's independent directors proportion is more than the total sample median and otherwise 0. Independent directors' proportion is calculated by total independent directors deflated by total board of directors.	Annual report
EMP	Natural logarithm of total employee	ORBIS
BIG4	1 for firm's Public Accountant Firm (PAF) is either Deloitte, Ernst & Young (EY), KPMG, and PricewaterhouseCoopers (PWC) and otherwise 0	ORBIS
ROA	Net income after preferred divided by average total assets for the year	ORBIS
FSIZE	Natural logarithm of total assets	ORBIS
LOSS	1 for firm that experienced loss for current year or has negative net income figure and 0 otherwise	ORBIS
LEV	Total liabilities scaled by total assets	ORBIS

Research Results

Descriptive Statistic and Univariate Comparisons

Table 3 provides a sample observation distribution, which is divided into two groups, with panel A for political connection and presence of independent commissioner each year, while Panel B is for combined between those two variables. Panel A shows that both of PCON and DIBOC has 74% and 88% proportion among all years, respectively. Panel B shows us that among 961 firm-year observations, 611 of it is politically connected and has a proportion of an independent commissioner below the median. It indicates that politicians dominate Indonesian business, and even its not compulsory, the independent commissioner position is quite common. Furthermore, more than 50% of Indonesian firms are borne high risk as a result of political connection and, at the same time, better monitoring function quality as comes from the independent commissioner presence.

Table 3: Sample Distribution by Year

Panel A				
Year	PCON	Non-PCON	DIBOC	Non-DIBOC
2014	100 (53%)	87 (47%)	162 (87%)	25 (13%)
2015	106 (52%)	97 (48%)	176 (87%)	27 (13%)
2016	172 (73%)	65 (27%)	212 (89%)	25 (11%)
2017	144 (99%)	1 (1%)	127 (88%)	18 (12%)
2018	187 (99%)	2 (1%)	166 (88%)	23 (12%)
Total	709 (74%)	252 (26%)	843 (88%)	118 (12%)

Panel B			
	DIBOC	Non-DIBOC	Total
PCON	611	98	709
Non-PCON	232	20	252
Total	843	118	961

Table 4 provides the result of the statistic descriptive of the research sample. It is shown that the average audit fees are 2.906b Rupiahs. The average firm has employees of approximately 3,400 persons, the return on assets 5.657, total assets 10.06b Rupiahs, and leverage 1.368. Of the firms, 44% have appointed Big 4 auditors, and 22.4% have experienced loss for the current period.

Table 4: Descriptive Statistics

	Mean	Median	Minimum	Maximum
AFEE	2.906e+09	8.000e+08	46750000.000	8.580e+11
PCON	0.738	1.000	0.000	1.000
DIBOC	0.877	1.000	0.000	1.000
DIBOD	0.444	0.000	0.000	1.000
EMPLOY	3402.755	1139.000	2.000	88496.000
BIG4	0.440	0.000	0.000	1.000
ROA	5.657	4.350	-60.120	70.920
TASSET	1.106e+10	3.765e+09	9090000.000	2.062e+11
LOSS	0.224	0.000	0.000	1.000
LEV	1.368	0.865	-6.730	33.937

Table 5 provides the first univariate test result, which is the Pearson correlation matrix. It shows that among all test and control variables, only LEV does not have a statistically significant relationship to LNFEE. Based on the Pearson result, PCON is statistically positive significant to LNFEE, while DIBOC is statistically negative significant to LNFEE. This result implies that politically connected firms have high risk and the presence of an independent commissioner tends to minimise the firm's risk perceived by auditors. Like the rest, EMP, BIG4, ROA, FSIZE have a positive relationship while DIBOD and LOSS have a negative relationship to LNFEE.

Table 6 provides independent t-test result of each test variable which are PCON (panel A) and DIBOC (panel B). It is shown that the result of an independent t-test is in line with our first two hypotheses, where politically connected firms have higher audit fees charged. In contrast, the presence of an independent commissioner makes a firm's audit fees lower. Overall, based on both our univariate analysis (Pearson correlation and independent t-test), this has confirmed our first and second hypothesis.

Table 5: Pearson Correlation Matrix

	LNFEE	PCON	DIBOC	DIBOD	EMP	BIG4	ROA	FSIZE	LOSS	LEV
LNFEE	1.000									
PCON	0.247***	1.000								
	(0.000)									
DIBOC	-0.119***	-0.079**	1.000							
	(0.000)	(0.014)								
DIBOD	-0.136***	-0.014	0.137***	1.000						
	(0.000)	(0.655)	(0.000)							
EMP	0.526***	0.173***	0.011	-0.204***	1.000					
	(0.000)	(0.000)	(0.732)	(0.000)						
BIG4	0.550***	0.147***	-0.077**	-0.034	0.369***	1.000				
	(0.000)	(0.000)	(0.017)	(0.299)	(0.000)					
ROA	0.160***	0.061*	0.036	-0.011	0.189***	0.252***	1.000			
	(0.000)	(0.058)	(0.265)	(0.731)	(0.000)	(0.000)				

FSIZE	0.690***	0.292***	-0.105***	-0.185***	0.628***	0.398***	0.076**	1.000		
	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.019)			
LOSS	-0.090***	-0.083**	-0.020	0.043	-0.162***	-0.064**	-0.558***	-0.110***	1.000	
	(0.005)	(0.010)	(0.540)	(0.187)	(0.000)	(0.049)	(0.000)	(0.001)		
LEV	0.029	-0.005	-0.042	-0.007	0.037	-0.036	-0.084***	0.079**	0.152***	1.000
	(0.369)	(0.874)	(0.193)	(0.834)	(0.252)	(0.269)	(0.009)	(0.014)	(0.000)	

p-values in parentheses
* p < 0.1, ** p < 0.05, *** p < 0.0

Table 6: Independent T-Test

		Panel A		
	Non-PCON	PCON		
	Mean	Mean	Coef	t-value
LNFEE	20.033	20.715	0.683***	7.904
DIBOC	0.921	0.862	-0.059**	-2.450
DIBOD	0.456	0.440	-0.016	-0.447
EMP	6.474	7.124	0.650***	5.428
BIG4	0.317	0.484	0.166***	4.614
ROA	4.429	6.093	1.664*	1.899
FSIZE	21.313	22.340	1.027***	9.464
LOSS	0.282	0.203	-0.079**	-2.579
LEV	1.387	1.362	-0.025	-0.159
		Panel B		
	Non-DIBOC	DIBOC		
	Mean	Mean	Coef	t-value
LNFEE	20.924	20.482	-0.442***	-3.724
PCON	0.831	0.725	-0.106**	-2.450
DIBOD	0.263	0.470	0.207***	4.275
EMP	6.904	6.960	0.056	0.342
BIG4	0.542	0.426	-0.117**	-2.393
ROA	4.507	5.818	1.311	1.115
FSIZE	22.505	22.009	-0.496***	-3.277
LOSS	0.246	0.221	-0.025	-0.613
LEV	1.614	1.334	-0.280	-1.302

Main Analysis

In this section, we test the relationship between test variables, which are PCON and DIBOC, to our dependent variable, which are LNFEE and the interaction of DIBOC on relationship PCON to LNFEE. We provide empirical results in table 7. There are four columns in table 7 that can be explained as follows: In the first column, we only include test variables without any control variables; in the second column, we include test and control variables in a regression model; in the third column, we also add industry and year fixed effect of controlling the industry and year of each observation; and in the last column, we employ interaction variable which is PCON_DIPOC to test the moderating effect of DIPOC on relationship of PCON to LNFEE.

Based on first column, we find that the PCON coefficient is 0.661, significant at 1 percent level (t = 7.69) and DIBOC coefficient is -0.372, significant at 1 percent level (t = -2.86). These results conclude that our first and second hypotheses are confirmed. After we include control variables (column two) and both industry and year fixed effect (column three), we still find a statistically positive (negative) significant relationship between PCON (DIBOC) to LNFEE but with a higher significance level. These results imply that our result is robust. In the fourth column, the coefficient of PCON_DIBOC is -0.370, significant at 10 percent level (t = -1.83) which indicates even the directional relationship between PCON to LNFEE and DIBOC to LNFEE are contradictory; the DIBOC is dominating compared to PCON in context of relationship to LNFEE when these two variables have interacted.

Overall, all our hypotheses are confirmed based on the regression test result. The general idea that being politically connected has a higher inherent risk, that the resulting auditor must put more considerable effort that is represented as audit fees and is empirically proven in Indonesia listed firms. The presence of an independent commissioner that could enhance monitoring function quality, which lowers the risk perceived by auditors, also has been proved empirically. We also find that the role of the independent commissioner in mitigating the risk of politically connected firms, is useful as it is lowering the audit fees charged.

Table 7: Main Regression Result

	(1)	(2)	(3)	(4)
	LNFEE	LNFEE	LNFEE	LNFEE
PCON	0.661***	0.106*	0.121*	0.460**
	(7.69)	(1.85)	(1.79)	(2.33)
DIBOC	-0.372***	-0.156*	-0.176**	0.131
	(-2.86)	(-1.84)	(-2.12)	(0.72)
PCON_DIBOC				-0.370*
				(-1.83)
DIBOD		-0.024	-0.014	-0.023
		(-0.37)	(-0.21)	(-0.35)
BIG4		0.734***	0.760***	0.758***
		(11.11)	(11.74)	(11.73)
EMP		0.068**	0.096***	0.096***
		(2.43)	(3.19)	(3.17)
ROA		0.004	0.004	0.005
		(1.26)	(1.31)	(1.33)
FSIZE		0.389***	0.363***	0.363***
		(14.74)	(12.87)	(12.91)
LOSS		0.074	0.087	0.086
		(0.91)	(1.05)	(1.04)
LEV		-0.003	-0.004	-0.004
		(-0.23)	(-0.29)	(-0.31)
Industry FE	Not included	Not included	Included	Included
Year FE	Not included	Not included	Included	Included
_cons	20.375***	11.190***	12.031***	11.777***
	(144.02)	(22.15)	(22.50)	(21.68)
r2	0.071	0.575	0.588	0.589
r2_a	0.069	0.571	0.578	0.579
N	961	961	961	961

Additional Analysis

To further examine the relationship of PCON to LNFEE, we divide the PCON variable into two categories. The first category is the board type that politically exposed person be seated (board of commissioner or board of director), and second is the affiliation type of political connection. In the first category, we divide into three variables, which are political connection which comes from the board of commissioners (PCON_BOC), from the board of directors (PCON_BOD), and from the firm's chief enterprise officer, who has a political connection (PCON_CEO). In the second category, we divide into six variables which are political connection affiliation is People's Consultative Assembly (PCON_PCA), House of Representatives (PCON_HOR), government's employees except ministry (PCON_GOVEX), one or more ministries (PCON_MIN), professional bodies or organisations that have significant influence (PCON_ORG), and state-owned enterprise (PCON_SOE).

Table 8 provides the regression result of additional analysis. We found that PCON seated on the board of commissioners has no relationship with LNFEE, while PCON_BOD have a positive relationship. It implies that as the board of commissioner's primary role is supervising and monitoring, the inherent risk of political connection is not as much as if it comes when directly related with the firm's operational, which is the board of directors. Furthermore, as the CEO has the highest authority related to the firm's operational, the risk of political connection is more significant if compared to other boards of directors.

Table 8: Specific PCON type Regression

	(1)	(2)	(3)
	LNFEE	LNFEE	LNFEE
PCON_BOC	0.074		
	(1.05)		
PCON_BOD	0.156*		
	(1.86)		
PCON_CEO		0.270**	
		(2.28)	
PCON_PCA			-0.114
			(-0.70)
PCON_HOR			0.038
			(0.27)
PCON_GOVEX			-0.008
			(-0.12)
PCON_MIN			0.064
			(0.57)
PCON_ORG			0.187***
			(2.91)
PCON_SOE			-0.001
			(-0.01)
DIBOC	-0.176**	-0.172**	-0.168**
	(-2.13)	(-2.07)	(-2.03)
Control variables	Included	Included	Included
Industry FE	Included	Included	Included
Year FE	Included	Included	Included
_cons	12.010***	11.924***	12.043***
	(22.57)	(22.78)	(20.85)
r2	0.589	0.588	0.591
r2_a	0.579	0.579	0.579
N	961	961	961

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 9: Interaction Result of Specific PCON type

	(1)	(2)	(3)
	LNFEE	LNFEE	LNFEE
PBOC_DIBOC	-0.304		
	(-1.59)		
PCON_BOC	0.352*		
	(1.96)		
PBOD_DIBOC	-0.089		
	(-0.51)		
PCON_BOD	0.238		
	(1.41)		
PCEO_DIBOC		-0.013	
		(-0.07)	
PCON_CEO		0.281	
		(1.52)	
PPCA_DIBOC			-0.653*
			(-1.79)
PCON_PCA			0.426
			(1.33)
PHOR_DIBOC			-0.204
			(-0.45)
PCON_HOR			0.244
			(0.57)
PGOV_DIBOC			-0.132
			(-0.75)
PCON_GOVEX			0.111
			(0.70)
PMIN_DIBOC			0.163
			(0.58)
PCON_MIN			-0.069
			(-0.27)
PORG_DIBOC			-0.179
			(-1.02)
PCON_ORG			0.334**
			(2.07)
PSOE_DIBOC			-0.087
			(-0.45)
PCON_SOE			0.040
			(0.24)
DIBOC variable	Included	Included	Included
Control variables	Included	Included	Included
Industry FE	Included	Included	Included
Year FE	Included	Included	Included
_cons	11.791***	11.921***	11.879***

	(21.97)	(22.66)	(20.30)
r2	0.590	0.588	0.595
r2_a	0.580	0.579	0.581
N	961	961	961

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

We also document that affiliation from a particular organisation dominating the relationship of PCON to LNFEE. This result implies that these organisations have substantial influence related to the firm's operationalisation and the public, in general, such as the Institute of Indonesia Chartered Accountants, Indonesian Chamber of Commerce and Industry, and many more. These influential organisations are perceived as a higher inherent risk if compared to other political connection's affiliation.

We also examine each specific type of political connection; we generate an interaction variable with the presence of an independent commissioner. The result of these regressions is provided in table 9. As previously in table 8, that political connection with the board of directors, CEO, and that is affiliated with the organisation, has a positive and significant relationship to audit fees and when three of these variables interacted with the presence of the independent commissioner, their relationship becomes insignificant. It implies that regardless of the type of political connection, the independent commissioner is essential for the firm to mitigate the risk induced by political connection, thus resulting in lower audit fees. This result concludes that the presence of independent commissioners weakens the relationship of PCON_BOD, PCON_CEO, and PCON_ORG to LNFEE, which in other words, that our third hypothesis is confirmed even in specific political connection types.

Conclusion

Prior literature indicates that the benefits of political connection have some demerits such as high audit fees (Bliss et al., 2011; Gul, 2006; Wahab et al., 2011). The general idea is as politically connected firms have higher inherent risk; resulting auditors must put in more considerable audit effort, which is represented as high audit fees. In contrast, the independent commissioner tends to lower the audit fees charged as it's role in monitoring the firm's operations. We found that political connection (independent commissioner) has a positive (negative) relationship with audit fees, in which the independent commissioner's relationship dominates the political connection relationship. Furthermore, we document that political connection with a positive relationship is mainly derived from the board of directors and CEO's political connection and a political connection that is affiliated from a particular organisation. Lastly, we document that regardless of the specific type of political connection, the presence of an independent commissioner is successful in moderating those relationships.

This study adds new empirical evidence to the literature on the political business connection in developing countries. Based on prior studies that document politically connected firms have borne higher risk, we further examine whether independent commissioners can affect that relationship and found that the risk can be minimised as the presence of independent commissioners make it stronger. Thus, our result informs the business owner that in order to minimise the demerits of political connection, one of it's ways is ensuring there is sufficient supervising and monitoring from the independent commissioner. This study also can indicate that the independent commissioner's role in Indonesia has been operationalised effectively in terms of reducing the risk perceived by auditors.

Future studies could continue to examine other variables that could moderate the relationship of political connection to audit fees. As various benefits are offered by having political connections, management as much as possible minimises it's demerits instead of giving up on connections, and a political study in a business study is still vital. Future studies can also consider the weight of each type of political connection and measuring political connection using ordinal such as the total person who has a political connection in the firm.

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